

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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**Boston Edison Company** )  
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**D.T.E. 01-108**

**DIRECT TESTIMONY OF LEE SMITH**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lee Smith, and my business address is 333 Washington Street,  
Boston, MA 02108.

Q. PLEASE SUMMARIZE YOUR OCCUPATIONAL EXPERIENCE.

A. I am a managing consultant at La Capra Associates. I have been with this energy planning and regulatory firm for 18 years. Prior to my employment at La Capra Associates, I was Director of Rates & Research, in charge of gas, electric and water rates, at the Massachusetts Department of Public Utilities (now called the Department of Telecommunications and Energy). Prior to that period, I taught economics at the college level. My resume is attached as Attachment A.

**INTRODUCTION**

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked by the Massachusetts Water Resources Authority ("MWRA") to review the proposed Rate WR filed on December 14, 2001, by Boston Edison Company ("BECO" or "Company").

Q. PLEASE SUMMARIZE THE CONCLUSIONS YOU REACH IN YOUR TESTIMONY.

A. First, there are valid reasons why Rate WR has had a lower transition charge than other customer classes, and those reasons continue to apply here. The MWRA's current payments to BECO under Rate WR are reasonable and BECO has not shown that any increase is appropriate.

Second, BECO's proposed treatment would impose a significant penalty on the MWRA for exercising its right to choose an alternative supplier of power.

Third, the proposed treatment is antithetical to long-standing Department principles and to the intent of the restructuring legislation. The MWRA should be free to take full advantage of retail access, with the same rights as any other retail customer to shop for power in the competitive market.

Fourth, the existing ratemaking methodology used to develop Rate WR provides a basis for determining an appropriate unbundled transition charge for Rate WR that is consistent with the Restructuring Act and with DTE orders.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. Initially I provide background on the MWRA and the genesis of Rate WR. I then describe how BECO rates, including Rate WR, have been developed since the implementation of retail access. Next, I describe BECO's December 14, 2001 proposal and present my critique of that proposal. Finally, I state my recommendations, including specific findings for the Department.

## **BACKGROUND OF RATE WR**

**Q. IS RATE WR CURRENTLY UNIQUE AMONG BECO'S TARIFFS?**

**A.** Yes. As the Department explained in 1991, a unique rate was "... necessary for the MWRA's load on Deer Island because BECO does not have an existing rate class that reflects the characteristics of that load." Rate WR was developed to reflect the unique characteristics of the MWRA as an electric customer. It currently is the only rate applicable to 115KVA service, and it may be the only rate that serves only a single customer. It is also the only delivery service rate that has not been fully unbundled.

**Q. WHAT ARE THE UNIQUE CHARACTERISTICS OF THE MWRA AS AN ELECTRIC CUSTOMER?**

**A.** The MWRA was established to construct and operate a massive, new wastewater treatment facility as part of a federal enforcement order concerning discharges into Boston Harbor. The Deer Island Sewage Treatment Plant processes and removes pollutants from wastewater from 43 communities. It has been responsible for a major improvement in the quality of water in Boston Harbor and the Massachusetts Bay. This effort has been financed primarily by water users in the greater Boston area. The electric service demands of the Deer Island facility peak following a heavy rain or spring snow melt when other BECO loads are otherwise very low. The facility's demand is relatively low during hot summer days when the BECO system peak typically occurs.

BECO also owned two combustion turbines on Deer Island that were built to provide backup for the Deer Island electric power supply. The units were originally constructed and owned by Boston Edison, but in 1994 ownership and operational responsibility was transferred to the MWRA at their full cost.

The electric service provided to the Deer Island facility does not use Boston Edison's distribution system. Instead, electric service is provided over a 115 KV cable

running under Boston Harbor. Under a series of agreements between the MWRA, BECO, and a BECO subsidiary (Harbor Electric Company) that were approved in D.P.U. 90-288 (1991), the MWRA pays the facilities and maintenance costs of this cable as well as charges under Rate WR for service to the Deer Island facility.

Because the MWRA does not utilize the Company's distribution system, Rate WR excludes all costs associated with service below the 115 kV transmission level, except metering. Also, consistent with the off-peak nature of the load and lower line losses associated with high voltage service, the embedded generation costs in Rate WR were less than those in other rates. Other than these differences, the WR rate was designed to provide for all of Boston Edison's costs of serving the MWRA Deer Island load.

#### **THE DEVELOPMENT OF THE CURRENT RATE WR**

**Q. WHAT IS THE HISTORY OF THE CURRENT RATE WR?**

**A.** To facilitate the restructuring of the electric utility industry to allow customers to shop for power supplies, utilities' electric rates were "unbundled" into two or more parts: at a minimum, into separate generation and delivery service charges. Delivery service charges include amounts for the delivery of electricity, both over the transmission system and over the distribution system, as well as for certain mandated public benefits fees, and "transition charges" designed to cover the utility's "stranded costs."

Rate WR was unbundled on somewhat different terms than other Boston Edison rates, which were unbundled to incorporate separate charges for transition costs and standard offer service as set forth in an earlier settlement agreement which the Department indicated "does not specifically cover the Rate WR." As the Department explained, although "the Rate WR ... recovers allocated costs ... application of the unbundling method applied to all other rate classes contained in the settlement ... would result in a negative distribution charge." According to Boston Edison, the MWRA paid an average rate of 6.485¢/kWh under the then existing charges, an amount less than the

sum of the unbundled transition cost, standard offer, and transmission rate elements alone ( $3.51¢ + 2.8¢ + 0.25¢ = 6.56¢$ ), i.e., without any charge for “distribution” or the 1997 Act’s public benefits charges, to say nothing of an adjustment for the rate reductions mandated under the 1997 Act. As a result, the Department adopted a rate design for Rate WR calculated to yield 90 percent of the existing revenue levels that included a bundled delivery, transition, and transmission charge and a separate standard offer charge.

In the intervening years, Boston Edison has, consistent with the actions it took with regard to its other rate classes, modified Rate WR to reflect changes in the level of the rate for standard offer service and the rate cap imposed by the 1997 Act. This past December 3, 2001, the Company proposed modifications to Rate WR in its 2001 transition charge reconciliation filing. Those modifications were consistent with those proposed for the Company’s other rate classes and resulted in an approximately \$0.0007 per kWh increase over the existing Rate WR.

### **BOSTON EDISON’S DECEMBER 14, 2001, PROPOSAL**

Q. PLEASE DESCRIBE THE COMPANY’S RATE PROPOSAL.

A. On December 14, 2001, the Company submitted a filing which withdrew its December 3 proposal for Rate WR and filed a replacement proposal, MDTE No. 974, that unbundled the existing rate and included a \$0.0095 /kWh increase in the transition charge that was implicit in the earlier proposal, producing a “delivery rate” increase of 71.5 percent, over the existing delivery service WR rate. The Company indicated that the new rate was necessary to reflect the fact the MWRA chose to leave Standard Offer Service on November 1, 2001, switching its generation service to a competitive supplier.<sup>1</sup>

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<sup>1</sup> BECO subsequently filed a revised Rate WR to be effective from January 1, 2002, until a Department order on proposed No. 974.

## **ANALYSIS OF BECO'S PROPOSED TREATMENT OF MWRA**

**Q. DO YOU BELIEVE BOSTON EDISON'S PROPOSAL IS REASONABLE?**

A. No. The Company's position appears to be that Rate WR should be modified to include an unbundled transition charge set at a significantly higher level than the charge implicit in the present rate. It has not, however, provided any basis to support this proposal. The only thing that has changed is that the MWRA is no longer buying power from BECO for its Deer Island facility. The unique characteristics of the MWRA's Deer Island load that led to the disparity between the generally applicable restructuring rate elements and the level of pre-restructuring Rate WR have not changed. Nor has Boston Edison yet shown that including the "uniform" transition charge in Rate WR is consistent with the level of embedded generation costs that were included in the earlier, cost based, pre-restructuring Rate WR.

**Q. DOES THE DTE'S 1998 ORDER EXCLUDE TRANSITION COSTS FROM RATE WR?**

A. No. In fact, during the course of DTE 99-107, BECO estimated the allocated distribution and transmission costs implicit in Rate WR, with the residual corresponding to the implicit Rate WR transition charge. As I show in Attachment B, the implicit transition charge in Rate WR was about 0.75¢ in the Company's December 3, 2001 proposal, up from 0.63¢ in the 2001 Rate WR.

**Q: IS THE CURRENT LEVEL OF RATE WR FAIR FOR OTHER BECO CUSTOMERS**

A: Yes. It is important to remember that the fact that the MWRA incurs fully one-third of its Boston Edison costs at Deer Island under a separate cable agreement resulted in the MWRA not receiving the mandated 15 percent reduction in its electric bill. All other customers, who pay for delivery, including most facilities, through their rate, did

receive this rate reduction as a result of the legislation. Not only did MWRA not receive a reduction to the costs associated with the delivery cable, but it is required by contract to pay BECO a return on equity of 18.5 percent on the cable investment.

More importantly, if BECO's stranded cost were allocated to customer classes based on cost incurrence, that is based on the factors that caused BECO to incur the generation costs that became stranded, little or none of such allocated costs would be allocated to Rate WR. The load served under that rate was not on the system or even a contemplated load when BECO built Pilgrim, or committed to most of the power contracts that are above market prices. In fact, since the MWRA load increased at a time when Boston Edison was concerned that it had a surplus of power, the MWRA was essentially served from what would otherwise have been surplus capacity and further stranded costs. In addition, in 1994 the MWRA bought back from Boston Edison the combustion turbines, at their full cost. At a cost of \$615 per KW, at a time when Boston Edison had excess capacity, this purchase by MWRA resulted in its absorbing itself costs that otherwise could have been "stranded."

Q. DOES THE PROPOSED TREATMENT DISCRIMINATE AGAINST THE MWRA IN ANY WAY?

A. Yes. BECO is proposing to increase the Rate WR delivery service rate because MWRA has chosen an alternative supplier, and the only reason it can even propose such an inappropriate change is because the MWRA is the only customer presently taking service on that rate. If there were other customers on Rate WR, this proposal would not even be considered: other customers who remained with Standard Offer service would pay a delivery service charge of \$.01399 (including the energy efficiency and renewables charge), while the customer who choose an alternative supplier would pay a delivery service charge of \$.02278. There seems to be little to differentiate this proposal from an effort to create a new rate class of the most attractive G3 and T2 customers (those first to have left Standard Offer service) and to then implement a new transition charge calculated to yield the "uniform" charge from each of these customers.

All individual customers do not pay the “uniform” transition charge and, although it could, BECO is not trying to reconcile the collection of individual customer transition revenues from any other class. In this case, BECO is trying to collect from a single customer a transition rate that was not part of its original rate design.

Q. DO ALL OTHER CUSTOMERS PAY THE AVERAGE APPROVED TRANSITION CHARGE?

A. No. Until recently, some entire classes did not on average pay the average approved transition charge. In DTE 00-82, the Department approved a change in methodology in which class transition charges, except for class WR, would be reconciled to the average system transition charge. Since that change, all classes other than WR will pay the average system transition charge, but there will still be variation in the transition charge paid by individual customers on demand metered rates. For instance, a customer that peaked in the spring or fall, and whose daily energy usage was relatively flat, would pay well less than the average transition charge on Rate G-3.

Q. HAVE THE DTE AND BECO PREVIOUSLY RECOGNIZED THE SPECIAL CHARACTER OF RATE WR?

A. Yes. BECO’s letter to the DTE (Oct. 19, 2001) in D.T.E. 00-82 noted that “**with the exception of Rate WR**, [emphasis added] every rate is designed to collect the average approved Transition Charge...” The DTE, in directing BECO not to use the unbundling method applied to all other rate classes for Rate WR, referred to “...the unique load characteristics of MWRA’s Deer Island facility and the corresponding relatively low average unit cost of service..” (p.35-36)

Q. DOES THE COMPANY’S PROPOSED ADJUSTMENT HINDER THE DEVELOPMENT OF COMPETITION?



A. Clearly it does. The MWRA has chosen a competitive supplier and the Company has responded by attempting to dramatically increase delivery service charges to the MWRA. Requiring a 70 percent higher delivery charge because the customer chooses an alternative supplier is removing from that customer the benefits of competition. In fact, it appears that if the MWRA returned to BECO generation service at this time or any time in the future, it would pay more for generation under the default service rate and it would pay much more for delivery service, simply because it experimented with an alternative supply. If it is acceptable for BECO to increase delivery service charges here for a customer that chooses an alternative supplier, other customers may very well fear, regardless of whatever declarations to the contrary that the Department may make, that this could happen to them and, thus, it will have a chilling effect on the development of competition.

Q. COULD BECO INCREASE DELIVERY SERVICE CHARGES TO CUSTOMERS IN OTHER RATE SCHEDULES, WHEN THOSE RATES ARE CURRENTLY DESIGNED TO RECOVER THE “UNIFORM” TRANSITION CHARGE?

A. The Company recently proposed, and received approval for, a reconciliation of class transition charge collections that will recover “shortfalls” in class revenues. If BECO were to be consistent with the position it is taking in this proceeding, it could file for separate transition charges from individual customers who choose alternative suppliers and who do not currently pay the class average rate. Even the possibility of such a result would prevent many customers from shopping for power.

Q. IS THIS TREATMENT INCONSISTENT WITH PREVIOUS DTE FINDINGS?

A. Yes. In DTE 99-107, (Phase II), the Department stated that “The selection of a competitive supplier would not change the transition and distribution charges under Rate WR.” In the present proceeding, the Company is proposing to do just that – to change transition and distribution charges because MWRA has selected a competitive supplier.

The treatment of MWRA proposed in this docket would also violate Provision II of the Settlement, which promised that the benefits of competition be extended to all retail customers.

## **RECOMMENDATIONS**

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. First, I recommend that the DTE reject the proposed WR rate, reject the concept that a delivery service rate could be increased because a customer chooses an alternative supplier, and reject the concept that the MWRA should pay the average system transition charge. Second, because I believe that an appropriate unbundled Rate WR would be better than the current approach, I recommend an alternative treatment of Rate WR.

Q. HOW DO YOU RECOMMEND THE COMPANY CALCULATE RATE WR?

A. The rate should be calculated in fundamentally the same manner as that mandated by the Department in 96-23. The result should be that the cost of delivery service to the MWRA will not increase because the MWRA has availed itself of retail choice. There are two means of achieving that result. Either the delivery charges in Rate WR should be calculated in the manner approved by the Department in DTE 96-23, or the rate could specify the unbundled distribution and transmission charge, and the Rate WR competitive transition charge could be set at the residual between these charges plus the energy efficiency and renewables charges, and the rate cap. This latter treatment would seem to be a better basis to move into the post rate cap period.

Q. WHAT IS THE IMPLICIT ACCESS CHARGE IN RATE WR, DETERMINED IN THE MANNER YOU HAVE RECOMMENDED?

A. This can be determined most easily by making the calculation from revenues shown in the Dec. 14<sup>th</sup> filing, attachment B. The withdrawn Rate 960 was designed to

collect the appropriate revenue under the rate cap from Rate WR. When standard offer revenues are removed, the remaining 2002 delivery service revenues are \$1,886,661. From this we need to remove revenues from Energy Efficiency, Renewables, Transmission, and Distribution charges. The latter two appear as separate charges and revenues under both Rate 960 and Rate 974. Distribution and Transmission revenues are shown, as calculated by BECO, under the proposed Rate 974. The remaining revenues are divided by kWh sales, resulting in a transition charge of \$.0075. This computation is shown in Attachment B.

Q. HOW DO YOU RECOMMEND THAT ANY RATE WR ACCESS BE SET AFTER THE RATE CAP PERIOD ENDS?

A. There is little guidance in the current scheme as to how the Rate WR access charge should be set after the end of the rate cap period. The DTE has recognized that WR is unique, and that it is appropriately a lower than average cost rate. I have demonstrated why an allocation of stranded costs to WR would be much lower than average. However, the determination of the appropriate allocated stranded cost would be controversial and difficult. A better solution would be to determine the implicit access charge in the 2002 rate as recommended above, and in subsequent years adjust this rate in proportion to how the average system transition charge in adjusted. That is, if the “uniform” transition charge was reduced by 5 percent, the WR access charge should also be reduced by this same amount.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.